

FEDERAL RESERVE BANK OF CHICAGO

REPORT OF BUSINESS CONDITIONS IN THE SEVENTH FEDERAL RESERVE DISTRICT

JANUARY 25, 1920

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BUSINESS is in a peculiar pocket. On one side there are forays against high prices: Society women engineering film propaganda and quasi-boycotts against this or that commodity at the prevailing price; or else pledging themselves to refrain from buying until concessions are made. On the other side there is the obstinate fact that demand for commodities outruns any possibility of providing a supply—that production is low in volume because labor is inefficient and because raw materials are available in quantities much below necessary requirements. These factors combined with others of vital moment—such as car shortage, motive power famine, inadequate transportation facilities and strike rumors—constitute a total of risk elements against which the average man of business dreads to pit his capital. Crowning all the rest of the difficulties that are piled up around business tranquility stands the foreign exchange situation—most obstinate and unfavorable in its bearings on American hopes.

"The wish is father to the thought," apparently, when it is asserted that "prices are on the point of breaking." Occasionally, it is true, there appear advertisements announcing "big cuts" in prices; and these are heralded as the beginning of the era of forced liquidation and of declines in the cost of living. Investigation fails to show that these "leaders" represent the facts of the general market. On the contrary, all the reports sent in, responsive to questionnaires for the purposes of this report, bear out the main point in Governor Harding's Boston address: namely, that foreign competition, against domestic demands for a terribly curtailed supply of goods, is responsible alike for the obstinate unfavorableness of the foreign exchanges to our sale of goods abroad, and for the persistent maintenance of the "high cost of living."

Business Continues in Great Volume in Mid-West

ADVICES from all parts of the district indicate that the general volume of business in the Middle West continues at a high level and that building operations and other activities will be sufficient to sustain the movement, for the immediate future at least. Farming communities continue to enjoy the prosperity which has resulted from several years of very high prices, and so long as the industrial centers of the agricultural districts continue to be abundantly supplied with purchasing power, there is little indication of any marked decline in domestic trade.

There is running through the banking mind in the Middle West, however, the thought that this country cannot long continue the extraordinary volume of foreign exports without some improvement in the foreign exchange situation. A drastic drop in international business, if it should come, would tend to alter the exchange situation. Such decline in exports may be offset to some extent by the tremendous accumulative buying power of our own country, yet this is an unknown factor in the present business situation.

Imperative Need of Increased Production Manifesting Itself

ADVICES on every hand, however, emphasize Europe's needs and the great insistence with which European countries having credit are bidding for all the essentials of life that we can export. The American business man realizes the potency of the suggestion of Governor Harding and other financiers both here and abroad, that increased production from the simplest of raw materials to the most highly elaborated products, is the only remedy that will right the situation. So far the rank and file of labor, and those directly interested in maintaining a high price level, either have failed to grasp the significance of this idea or are ignoring it.

Some concern has been expressed over the stock of pork left on the hands of the meat producers at the end of 1919, in consequence of the lack of adequate dollar credit among the consuming nations of Europe, where this pork is so urgently needed. This feature may serve to illustrate the necessity of extension of credits abroad in order to establish a market to absorb any surplus stock of pork that may accumulate. It throws much light, also, the effect of the creation of a surplus, even though temporary, on retail prices.

Loans at Banks in Middle West Still Bulk Large.

THE loan item in the Mid-West banks continue to reflect the rather liberal use of credit in all lines of endeavor. Complaint that farmers are withholding corn from the market is met by a counter complaint of the inability on the part of farmers and livestock raisers to obtain cars for shipment of hogs and other animals when fattened and ready to go to the markets. The farmers who are large raisers of hogs are buying corn to meet their 1920 requirements, and most of these transactions are taking place in the local markets. This requires the use of credit, and is reflected in the shifting of credits.

So far, there is little direct evidence of a further curtailment of loans in consequence of the moral suasion campaign to bring about that result, but it is gratifying to note the co-operation which has been given by the member banks in this district to the effort to confine loans to actual requirements, as distinguished from the speculative feature. This is reflected in the ability of the Federal Reserve Bank of Chicago not only to care for the legitimate requirements of business in this district, but to materially assist other districts less fortunately situated.

Speculation is Still in Evidence

NOTWITHSTANDING the rather demoralized investment situation existing during the closing weeks of 1919, when it was almost impossible to tell what a bond was actually worth in the open market, the coming of the new year has witnessed a most noteworthy improvement. The "silent panic" in bonds was apparently traceable to several developments, not the least of which was the desire of income tax payers to take all possible losses on securities before January 1. The high rates for call money, particularly in New York, have had no appreciable effect in stimulating a demand for bonds by private investors. This demand, however, has not been what it should have been for some time, for the reason that the desire of the Western investor has been and evidently still is to speculate.

Municipal Extravagance Continues

MUNICIPAL extravagance continues to be complained of, as evidenced by huge amounts of securities being put out. There is a tendency toward lower prices in municipals owing to the great values coming on the market. Absorption of Government bonds for permanent investment goes on at an enormous rate and western investment houses are looking forward to much higher prices for United States Bonds within the next two or three years.

There is in evidence some improvement in the public utility situation as it relates to all except street railroads. Even the street railroad situation is reported not to be in as chaotic shape as it was the middle of last year. The financial reports by electric light and power companies, according to Chicago investment bankers show large increases in gross and substantial increase in net earnings.

Individual Banks Show Deposit Growth

INDIVIDUAL banks continue to show a substantial growth in their aggregates of individual deposits both as compared with a month ago and a year ago. The fifty member banks in Chicago report \$994,785,000 demand and \$258,882,000 time deposits, compared with \$944,723,000 demand and \$250,855,000 time deposits a month previous, and Detroit banks show a substantial increase in both classes, as do the banks in other selected cities. Loans increased sharply during the same period but Chicago and other selected cities indicate that this expansion as a rule did not exceed the increase in demand deposits.

The movement of credit reflected in the aggregate debits to individual account continue to indicate great activity, the total debits reported by 184 banks in twenty-two clearing house centers, including Chicago, January 14, 1920, being \$1,170,475,000, compared with \$938,430,000 a year ago. Compared with a month previous, the total reflected a slightly lessened activity, the aggregate December 17, 1919, being \$1,224,051,000 for 185 banks. Chicago clearing house exchanges for the first fifteen business days of January aggregated \$1,775,651,753, compared with \$1,403,806,934 for the corresponding month a year ago.

Advices from some of the bankers in the agricultural sections indicate that the March settlements are likely to cause material trouble and litigation on various changes in farm land ownership throughout Iowa. The speculative rise in prices has been checked, however, by the impossibility of making a fair return at ruling rentals, even with the high prices of produce.

Agricultural Outlook Regarded Favorable

AGRICULTURAL conditions in all parts of the Seventh Federal Reserve District appear to be favorable. Weather conditions in northern Illinois, Iowa, southern Michigan, northern Indiana and southern Wisconsin are satisfactory and in some cases are pronounced ideal. The weather is cold, and while the farmers have not been able to do any work in the fields, the roads are good, which enables them to move their produce, where cars are available. The ground in most sections is covered by a good mantle of snow and in most sections there have been practically no thaws since winter set in.

The acreage of fall crops, however, in Iowa is considerably smaller than that of a year ago, but crops have gone into winter in good condition, with a good snow covering protecting them. The same is true of the greater portion of Illinois lying in this district. Some sections of Indiana had alternating freezing and thawing weather early and many farmers there are reporting the Hessian fly working in the wheat. The Michigan wheat and rye crop, though below the previous year acreage, are in good condition. There is a smaller acreage of wheat in Wisconsin but it is well protected.

Industrial Conditions Reflect Counter Currents

INDUSTRIAL conditions over the district reflect counter currents at work. There is running all through the correspondence from various industrial centers uncertainty caused by threats of strikes, inadequate production of coal, iron and basic materials, fickleness and consequent inefficiency of labor. Conditions in the various industries in the Seventh Federal Reserve District as reflected by these replies may be epitomized as follows:

COAL—Is a hand to mouth proposition. Production since December 10 (the end of the strike), has been about normal, or a little above the winter average, but consignments were kept up to normal, current burning demand, only by artificial measures on the part of railways; and with the removal of these favors to the mines, great dangers confronted all industry, for the reason that all fuel stocks were exhausted by the strike and have not been replenished owing to the car and engine shortage on the carrier lines. When the most essential of all commodities, coal, is thus dangerously scarce, it need not be said that manufacturers of all kinds are in precarious supply—and such is the case.

STEEL—Almost impossible to obtain. Production sold far ahead and output now limited by innumerable factors, of which not the least is the difficulty of re-establishing trade with Europe at existing rates of exchange and no feasible scheme of extending dollar credits of long maturity except by burdening American banks.

STRUCTURAL TRADES—At one half normal speed, due to inability to obtain beams, girders, angles, labor, stone and even common brick.

BRICK—Extreme scarcity and prohibitive prices, owing to efforts of legislators to fix prices below the level set by fuel and labor cost elements. Result: Cessation of manufacture, exhaustion of yard stocks, and virtual famine at a time when the need of building is most urgent.

COTTON AND WOOL—Exceedingly short supply of the best grades of both fibre staples. Coarse wools abundant but not acceptable to the public. No sale for cheap wools for apparel purposes; outlet of coarse wools limited by the high cost and low efficiency of mill labor in the carpet industry.

LEATHER—Stocks in all positions very scant. Enormous demand all the world over. Shortage due to the depletion of animal population by war and slaughter of breeding stock to avoid high cost of feeding. Result: High prices for the best grades and moderate demand for lower grades.

RECEIPTS OF LIVE STOCK AT CHICAGO, COMPARED

Receipts of live stock at the Chicago market during the four weeks ending January 10, compared with the corresponding period of 1919, are as follows:

	Cattle	Calves	Hogs	Sheep
1920.....	257,928	49,250	917,846	361,445
1919.....	308,259	41,587	906,538	351,236
	*50,331	7,663	11,308	10,209

*Decrease.

RECEIPTS AND SHIPMENTS OF IMPORTANT COMMODITIES AT CHICAGO (000's omitted)

	Receipts				Shipments			
	November		December		November		December	
	1919	1918	1919	1918	1919	1918	1919	1918
Flour, barrels	1,167	616	1,145	1,057	797	345	783	706
Wheat, bushels	3,842	5,629	2,095	7,137	3,939	8,498	2,466	7,736
Corn, bushels	4,851	6,139	7,457	5,489	1,996	5,268	3,857	3,274
Oats, bushels	5,515	10,957	5,620	12,472	6,761	9,435	4,991	9,435
Cured Meats, pounds	12,402	11,736	11,635	13,156	111,423	85,385	114,055	118,071
Fresh Meats, pounds	81,491	111,538	97,904	137,515	262,900	159,620	294,410	250,336
Lard, pounds	11,166	10,767	14,087	12,959	58,033	57,437	57,677	52,864
Cheese, pounds	17,505	11,958	12,190	10,334	19,112	4,744	14,453	5,480
Butter, pounds	18,671	16,122	15,704	14,544	20,750	15,290	18,577	19,041
Eggs, cases	117	124	48	85	303	311	219	205
Potatoes, bushels	2,010	2,262	1,177	1,494	688	978	303	321
Hides, pounds	17,101	12,959	17,088	17,186	27,522	15,791	28,683	40,347
Lumber, thousand feet	176	142	226	163	70	72	79	60

COMPARATIVE STATISTICS OF BUILDING AND ENGINEERING OPERATIONS

Contracts awarded in States north of the Ohio and east of the Missouri Rivers, from December 1, 1919, to January 1, 1920.

1919	\$2,559,625,000	1916	\$1,356,989,397	1913	\$857,698,500
1918	1,689,242,000	1915	940,089,334	1912	868,103,000
1917	1,618,167,000	1914	720,241,300	1911	777,456,813

Contracts awarded in Seventh Federal Reserve District States—Illinois, Indiana, Iowa, Michigan and Wisconsin—also Northern Missouri and Eastern Kansas.

1919	\$891,729,000	1916	\$455,696,897	1913	\$185,057,000
1918	495,919,000	1915	307,653,600	1912	175,078,000
1917	596,479,000	1914	212,476,800	1911	148,514,813

BUILDING PERMITS OF SEVENTH FEDERAL RESERVE DISTRICT CITIES

	December, 1919—		December, 1918—	
	No. of Permits	Estimated Cost	No. of Permits	Estimated Cost
Illinois				
Aurora	17	\$ 106,785	9	\$ 13,700
Chicago	294	8,974,750	112	1,410,350
Decatur	16	233,000	8	2,340
Peoria	34	588,900	7	13,900
Rockford	33	50,385	—	—
Indiana				
Fort Wayne	25	155,068	39	92,525
Hammond	16	261,420	14	87
Indianapolis	329	716,101	222	167,339
Richmond	19	13,575	18	10,975
South Bend	91	78,697	19	2,945
Terre Haute	32	27,501	20	16,160
Iowa				
Cedar Rapids	18	146,000	9	17,000
Davenport	33	111,595	39	18,900
Des Moines	60	307,890	26	71,090
Dubuque	8	21,145	1	1,500
Sioux City	37	204,182	20	66,400
Michigan				
Battle Creek	22	51,000	17	30,000
Bay City	14	10,546	6	5,325
Detroit	955	6,696,600	318	541,865
Flint	134	229,515	—	—
Grand Rapids	47	158,857	33	27,376
Jackson	39	111,100	21	24,225
Lansing	66	168,410	8	9,246
Saginaw	67	123,856	17	31,888
Wisconsin				
Kenosha	67	208,582	45	30,274
Madison	20	59,130	3	6,700
Milwaukee	95	3,027,972	93	495,601

SELECTED MEMBER BANK STATISTICS—SEVENTH DISTRICT

(000's omitted)

	Chicago 50 Member Banks			Detroit 12 Member Banks			Other 45 Member Banks		
	Jan. 3, 1919	Dec. 5, 1919	Jan. 9, 1920	Jan. 3, 1919	Dec. 5, 1919	Jan. 9, 1920	Jan. 3, 1919	Dec. 5, 1919	Jan. 9, 1920
Total U. S. Securities owned		\$103,496	\$97,897		\$81,411	\$89,571		\$62,422	\$61,052
Loans—									
Secured by U.S. war obligations		\$61,160		\$8,720			\$13,420		
(a) Liberty Bonds		49,363	53,694		8,037	8,794		13,193	13,412
(b) Victory notes		15,585	13,897		2,892	2,984		2,560	2,592
(c) Certificates of indebtedness		4,040	2,185		67	733		449	296
Loans secured by stocks and bonds other than U.S. securities		369,595	382,557		49,077	52,976		45,420	46,977
All other loans and investments		770,445	814,253		244,085	287,426		290,575	300,315
Reserve Balance with Federal Reserve Banks	108,825	129,277	141,418	21,886	26,468	29,766	25,241	26,777	30,387
Cash in Vault	44,555	42,737	42,130	13,821	14,280	15,186	15,811	14,511	15,441
Deposits—									
Net Demand	794,398	944,723	994,785	162,048	206,416	210,310	209,707	219,761	236,218
Time	149,859	250,855	258,882	155,896	193,850	198,959	89,211	107,470	109,892
Government	13,962	31,925	30,088	13,964	12,951	22,242	6,189	7,983	8,861

*Figures for January 3, 1919, were from 44 Chicago banks and 44 banks outside of Chicago and Detroit.